



## **Report of the auditor-general to the North West provincial legislature and the council on the Ramotshere Moiloa Local Municipality**

### **Report on the audit of the financial statements**

#### **Disclaimer of opinion**

1. I was engaged to audit the financial statements of the municipality set out on pages xx to xx, which comprise of the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

#### **Basis for disclaimer of opinion**

##### **Investment property**

3. I was unable to obtain sufficient appropriate audit evidence for investment property as adjustments in the prior year were not substantiated with sufficient appropriate audit evidence. I was unable to confirm these assets by alternative means. Consequently, I was unable to determine whether any adjustment to investment property of R53 836 358 (2017: R54 972 872) as disclosed in note 8 to the financial statements was necessary.

##### **Property, plant and equipment**

4. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment due to the status of the accounting records. I was unable to confirm these assets by alternative means. Consequently, I was unable to determine whether any adjustments to property, plant and equipment of R581 584 006 (2017: R578 223 324) as disclosed in note 9 to the financial statements and the depreciation and amortisation expense of R29 169 910 (2017: R31 109 207) as disclosed in note 29 to the financial statements were necessary.

##### **Consumer debtors**

5. I was unable to obtain sufficient appropriate audit evidence for consumer debtors, including the debt impairment, VAT on debtors and other related disclosures due to the status of the accounting records. I was unable to confirm these consumer debtors and debt impairment by alternative means. Consequently, I was unable to determine whether any adjustments relating to consumer debtors of R58 247 095 (2017: R44 832 650) as disclosed in note 6 and the debt impairment expense of R7 445 962 (2017: R36 052 610) as disclosed in note 28 to the financial statements were necessary.

## Inventories

6. I was unable to obtain sufficient appropriate audit evidence for inventories due to the status of the accounting records. I was unable to confirm these inventories by alternative means. Consequently, I was unable to determine whether any adjustment relating to inventory of R7 020 503 as disclosed in note 2 to the financial statements was necessary.

## Payables from exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence for trade payables included in payments from exchange transactions due to the status of the accounting records. I was unable to confirm these payables by alternative means. In addition, accrued leave pay was calculated using the incorrect rates resulting in employee related cost and accrued leave pay being understated by R10 822 615. Consequently, I was unable to determine whether any further adjustment relating to payables from exchange transaction of R105 449 999 (2017: R97 112 278) as disclosed in note 14 to the financial statements was necessary.

## VAT payable

8. The municipality did not correctly account for VAT on payables and receivables as the municipality did not maintain adequate records of VAT on payables and receivables. I was unable to determine the full extent of the misstatement on the VAT payable of R1 229 377 as disclosed in note 15 to the financial statements as it was impracticable to do so.

## Provisions

9. The municipality did not correctly recognise the provision for the landfill site rehabilitation in accordance with GRAP 19, *Provisions, contingent liabilities and contingent assets*. Consequently, provision for the environmental rehabilitation included in provisions disclosed in note 19 was overstated by R28 750 257 (2017: R16 065 684), the landfill site disclosed in note 9 was overstated by R5 668 229 (2017: R5 668 229), general expenses disclosed in note 33 was overstated by R13 667 000 (2017: R10 460 000) and finance cost disclosed in note 31 is understated with R982 427 (2017: R869 118). Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.

## Revenue from exchange transactions

10. During 2017, the municipality did not correctly recognise revenue in accordance with GRAP 9, *Revenue from exchange transactions* as sewerage and sanitation charges were calculated using inaccurate information. As a result, the corresponding figure for service charges was understated by R12 265 964, consumer debtors was understated by R13 983 199 and the VAT payable was understated by R1 717 234. Additionally, there was a resultant impact on the deficit for the corresponding period and on the accumulated surplus.
11. I was unable to obtain sufficient appropriate audit evidence for service charges in the current and previous year and licences and permits in the previous year due to the status of the accounting records. I could not confirm these revenues by alternative means. Consequently, I was unable to determine whether any further adjustments to service charges of R70 065 993 (2017: R67 985 005) and the corresponding figure for licences and permits of R2 778 840 as disclosed in the Statement of Financial performance, consumer debtors of R58 247 095 (2017: R44 832 650) as disclosed in note 6 and the corresponding figure for receivables from exchange transactions of R670 313 as disclosed in note 4 to the financial statements, were necessary.

## Revenue from non-exchange transactions

12. I was unable to obtain sufficient appropriate audit evidence for property rates and receivables from non-exchange transactions due to the status of the accounting records. I was unable to confirm these property rates and receivables from non-exchange transaction by alternative means. Consequently, I was unable to determine whether any adjustments relating to property



rates of R34 942 215 (2017: R40 473 071) as disclosed in note 23 and receivables from non-exchange transactions of R11 542 020 (2017: R6 765 865) as disclosed in note 5 to the financial statements were necessary.

13. The municipality did not correctly recognise revenue in accordance with GRAP 23, *Revenue from non-exchange transactions (taxes and transfers)* as revenue from traffic fines was duplicated. Consequently, fines, penalties and forfeits of R5 575 164 as disclosed in the statement of financial performance and receivables from non-exchange transactions of R11 542 020 as disclosed in the statement of financial position were overstated by R2 343 280. Additionally, there was a resultant impact on the surplus for the period and accumulated surplus.
14. I was unable to obtain sufficient appropriate audit evidence for revenue from government grants and subsidies due to the status of the accounting records. In addition, the municipality were providing retail water services on behalf of the district municipality and as per the agreement with the district municipality, the actual cost incurred by the municipality for the provision for free basic water and sanitation services shall be paid by the district municipality. As the municipality did not maintain adequate records of these costs or amounts received from the district I was unable to determine the resultant understatement relating to these services. I could not confirm these government grants and subsidies or related receivables and payables by alternate means. Consequently, I was unable to determine whether any adjustments to government grants and subsidies of R181 620 194 (2017: R168 002 587), receivables from non-exchange transactions of R11 542 020 (2017: R6 765 865), unspent conditional grants and receipts of R3 412 376 (2017: R2 203 504) as per the statement of financial position or any related expenditure or payable were necessary.

#### General expenses

15. During 2017, I was unable to obtain sufficient appropriate audit evidence for general expenses due to a lack of adequate systems to maintain records to support financial information. I was unable to determine whether any adjustment to general expenses of R59 008 711 was necessary. My audit opinion on the financial statements for the period ended 30 June 2017 was modified accordingly. I am still unable to confirm these expenses by alternate means. Consequently, my opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

#### Accumulated surplus

16. I was unable to obtain sufficient appropriate audit evidence for the accumulated surplus due to differences between the financial statements and the accounting records. I was unable to confirm the accumulated surplus by alternate means. Consequently, I was unable to determine whether any adjustment relating to the accumulated surplus of R528 866 814 as presented in the statement of financial position or statement of changes in net assets was required.

#### Distribution losses

17. I was unable to obtain sufficient appropriate audit evidence for electricity losses due to the status of the accounting records. I was unable to confirm these electricity losses by alternate means. Consequently, I was unable to determine whether any adjustment relating to distribution losses of R11 446 915 as disclosed in note 46 to the financial statements was necessary.
18. The municipality did not disclose the water losses in the financial statements as required by section 125(2)(d)(i) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA). As the municipality does not have adequate control measures in place to accurately determine the extent of water losses, I was unable to determine the full extent of the distribution losses, as it was impracticable to do so.



### Irregular expenditure

19. Section 125 of the MFMA requires the disclosure of irregular expenditure incurred. The municipality made payments of R38 769 925 in contravention with the supply chain management requirements and salary overpayments of R1 882 534 to councillors in excess of the upper limits as determined in terms of the Remuneration of Public Office Bearers Act, 1998 (Act no. 20 of 1998), which were not included in irregular expenditure disclosed. As the municipality did not quantify the full extent of the irregular expenditure, it was impracticable to determine the resultant understatement of irregular expenditure of R153 138 291 as disclosed in note 43 to the financial statements.

### Prior period errors

20. I was unable to obtain sufficient appropriate audit evidence for the adjustments to prior period errors. I was unable to confirm the disclosed amounts and explanations by alternative means. Consequently, I was unable to determine whether the adjustments to prior period errors were appropriately disclosed as per note 51 to the financial statements.

### Risk management

21. The municipality did not disclose a summary of quantitative data about its exposure to risk arising from financial instruments and other related disclosure requirements as required by GRAP 104, *Financial instruments*. Consequently, the municipality did not disclose all the required information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments which the entity is exposed to in note 39 to the financial statements. I was unable to practicably determine the impact of the omitted disclosure.

### Emphasis of matters

22. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Unauthorised and fruitless and wasteful expenditure

23. As disclosed in note 41 to the financial statements, unauthorised expenditure of R23 268 307 was incurred in the current year and the unauthorised expenditure of R130 520 575 in respect of prior years have not yet been dealt with in accordance with section 32 of the MFMA.
24. As disclosed in note 42 to the financial statements, fruitless and wasteful expenditure of R5 986 204 was incurred in the current year and fruitless and wasteful expenditure of R8 766 373 from prior years have not yet been dealt with in accordance with section 32 of the MFMA.

### Other matters

25. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Unaudited disclosure notes

26. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

### Unaudited supplementary schedules

27. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited this / these schedules and, accordingly, I do not express an opinion thereon.





## Responsibilities of the accounting officer for the financial statements

28. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the MFMA and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
29. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

## Auditor-general's responsibilities for the audit of the financial statements

30. My responsibility is to conduct an audit of the financial statements in accordance with International Standards on Auditing (ISAs) and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.
31. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit of the financial statements. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

## Report on the audit of the annual performance report

### Introduction and scope

32. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I was engaged to perform procedures to raise findings but not to gather evidence to express assurance.
33. I was engaged to evaluate the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2018:

Development priorities	Pages in the annual performance report
KPA 2: Basic service delivery and infrastructure development	x – x

34. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

## KPA 2: Basic service delivery and infrastructure development

### Square meters of roads patched

35. I was unable to obtain sufficient appropriate audit evidence for the reported achievement against the target of “4366m<sup>2</sup> of Road patched by 30 June 2018”. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of “4624m<sup>2</sup>” as reported in the annual performance report.

### Number of kilometres of roads bladed

36. The reported achievement against the target of “100km roads bladed” in the annual performance report was “34.4km road bladed”. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of “30 km road bladed”. In addition, I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance as reported in the annual performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported measures taken to improve performance.

### Reviewed water and sanitation services maintenance plans reviewed by 30 June 2018

37. I was unable to obtain sufficient appropriate audit evidence to validate the existence of systems and processes that enable reliable reporting of actual service delivery against the indicator. This was due to limitations placed on the scope of my work. I was unable to validate the existence of systems and processes by alternative means. In addition, I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against the target reviewed water and sanitation services maintenance plans reviewed by 30 June 2018 as reported in the annual performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

### Various indicators: No evidence was provided for the measures reported to improve performance

38. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against the following targets as reported in the annual performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance as follows:

Indicator	Target	Reported achievement
Number of joint operational (Tshireletso security + RMLM) meetings	12 Meetings	Not achieved 3 Meetings
Number of kilometres of roads re-gravelled	4km of roads re-gravelled	3.7km
Number of households energized	798 households energized (Henryville Phase 1 – 72HH, Ikageleng Ext 3 – 496HH, Kruisrivier phase 2-230HH)	Kruisrivier-230 connection Henryville- 75 connections achieved

### Various indicators: Reported achievements not reliable

39. The reported achievement for the following indicators is not reliable as the municipality did not have an adequate performance management system to maintain records to enable reliable reporting on achievement of targets. As a result, I was unable to obtain sufficient appropriate audit evidence in some instances while in other cases the supporting evidence provided did not agree to the reported achievement. The reported achievements for the indicators did not agree with supporting evidence provided, but I was unable to further confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievement.

Indicator	Reported achievement	Audit value
Number of beneficiaries receiving free basic refuse removal services	1801	2268
Number of beneficiaries receiving free basic electricity	1442	1816
Number of beneficiaries receiving free basic water	1442	1816

### Various indicators: Indicators are not verifiable and reported achievements are not reliable

40. The systems and processes that enable reliable reporting of the achievement against the following targets were not adequately designed. As a result, I was unable to obtain sufficient appropriate audit evidence for the reported achievements. Limitations were placed on the scope of my work as I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report.

Indicator	Target	Reported achievement
Number of households with access to water	275	275
Number of households with access to electricity	275	275
Number of households with access to sanitation	275	275

### Various indicators: Indicators are not verifiable, reported achievements and measures reported to improve performance are not reliable

41. The systems and processes to enable reliable reporting of the achievement against the indicators were not adequately designed and implemented. As a result, I was unable to obtain sufficient appropriate audit evidence for the measures taken to improve performance against targets and the reported achievements of the indicators listed below due to these limitations placed on the scope of my work. I was unable to confirm the measures taken to improve performance against targets and the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the measures taken to improve performance against targets and to the reported achievements in the annual performance report.

Indicator	Target	Reported achievement
Number of Sports fields rehabilitated	2 sports fields rehabilitated by 30 June 2018	Not Achieved
Number of quarterly	1 park maintained quarterly by 30	Achieved

Indicator	Target	Reported achievement
maintenance for community parks	June 2018	
Number of pest control conducted	4 pest control conducted by 30 June 2018	Not achieved
Number of roads upgraded (1km in Lekgophung, Zeerust 1.2km, Swartkopfontein - 1,km, Lobatla - 1,1km)	5 Roads upgraded 2018 (1km in Lekgophung, Zeerust 1.2km, Motswedi – 1km, Swartkopfontein – 1,1KM, Lobatla – 1,1km) by 30 June 2018	Road bed, sub-base, base layers completed for all projects
Number of Community halls completed at Mokgola Village	1 Community Halls completed at Mokgola Village by 30 June 2018	Foundation, walls, wall plate, roofing, borehole, fencing and plastering.
Number of sports fields rehabilitated	1 Sports fields rehabilitated at Borakallo by 31 December 2017	Ablution bock, revamp tennis and netball courts, grassing, grand stand, change room.
Completion of the Zeerust substation	Constructed the Zeerust switching station by 31st December 2017	Not Achieved
Percentage of electrical connections (as and when applications are received) completed	100%	Not achieved
Percentage of water connections (as and when applications are received) are completed	100%	Not achieved
Percentage of sewerage connections (as and when applications are received) completed by 30 June 2018	100%	Not achieved

## Other matters

42. I draw attention to the matters below.

### Achievement of planned targets

43. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 35 to 41 of this report.



### Introduction and scope

44. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
45. The material findings on compliance with specific matters in key legislation are as follows:

### Annual financial statements and annual report

46. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of commitments, related parties, unauthorised expenditure, fruitless and wasteful expenditure, irregular expenditure, cash flow statement and statement of comparison of budget and actual amounts identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were subsequently provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion.
47. The 2016-17 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
48. The council failed to adopt an oversight report containing the council's comments on the annual report within 9 months, as required by section 129(1) of the MFMA.
49. The oversight report adopted by the council on the 2016-17 annual report was not made public, as required by section 129(3) of the MFMA.

### Expenditure management

50. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
51. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal, payment of funds, as required by section 65(2)(a) of the MFMA.
52. Reasonable steps were not taken to prevent unauthorised expenditure of R23 268 307, as disclosed in note 41 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed unauthorised expenditure was caused by overspending on allocated approved budget per vote.
53. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain management regulations. Irregular expenditure of R1 529 555 was incurred on the key projects for internal roads and storm water in Ikageleng phase 2.
54. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R5 986 204, as disclosed in note 42 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest charged on overdue accounts.

### Revenue management

55. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

56. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

#### **Asset management**

57. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

#### **Consequence management**

58. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) and (b) of the MFMA.

#### **Strategic planning and performance management**

59. The local community was not consulted on the drafting and implementation of the integrated development plan (IDP), as required by section 29(1)(b)(ii) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and regulation 15(1)(a)(i) of the Municipal Planning and Performance Management Regulations.
60. The IDP was not drafted considering the integrated development process and proposals submitted to it by the district municipality, as required by section 29(3)(b) of the MSA.
61. The local community was not afforded the opportunity to comment on the final draft of the IDP before adoption, as required by section 42 of the MSA and regulation 15(3) of the Municipal Planning and Performance Management Regulations.

#### **Human resource management**

62. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted as required by section 67(1)(d) of the MSA.
63. An approved staff establishment was not in place, as required by section 66(1)(a) of the MSA.
64. The senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

#### **Procurement and contract management**

65. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c).
66. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
67. Some of the quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.
68. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
69. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2).
70. Competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2). This non-compliance was identified in the procurement processes for the key project for the Internal Roads and Storm water in Ikageleng phase 2.

71. Some of the contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
72. Some of the contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the key project of Internal Roads and Storm water in Ikageleng phase 2.
73. The preference point system was not applied for the procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act.
74. Construction contracts were awarded to contractors that were not registered with the CIDB in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A). Similar non-compliance was also reported in the prior year.
75. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5. Similar non-compliance was also reported in the prior year.
76. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
77. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.

#### Internal control deficiencies

78. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual financial report and the findings on compliance with legislation included in this report.
  - Leadership did not provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the municipality. Furthermore, there was lack of oversight responsibility regarding financial and performance reporting and compliance and related internal controls.
  - Management did not design and implement internal controls to provide reasonable assurance on the achievement of an entity's objectives, the reliability of financial reporting, the effectiveness and efficiency of operations and compliance with applicable legislation. Furthermore, the action plan was not adequate to address prior year audit findings; consequently, there were numerous instances of repeat audit findings identified during the current audit.
  - Internal audit was not adequately resourced to monitor and evaluate internal controls, as a result it was unable to identify internal control deficiencies and recommend corrective action effectively. Further, the audit committee did not sufficiently provide assurance on the quality of the financial statements and performance reports prior to submission for audit and as a result numerous fundamental accounting misstatements were identified during the audit which could have reasonably been prevented had proper review been done.

## Other reports

79. I draw attention to the following engagement that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. This report did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

## Investigations

80. A forensic investigation conducted by an independent consulting firm into various irregularities relating to the sale of land, procurement and other matters, was finalised on 16 September 2016 and issued to the acting municipal manager and submitted to the council on 31 March 2017. The findings of the report have not yet been addressed.
81. The municipal public accounts committee is performing an investigation into allegations of irregularities which involved a councillor. The investigation was still in progress at the date of this report.

*Auditor-General*  
Potchefstroom

30 November 2018



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*